IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

SURFACE SUPPLIED, INC.,

Plaintiff,

v.

KIRBY MORGAN DIVE SYSTEMS, INC.,

Defendant.

AND RELATED COUNTERCLAIMS.
_____/

No. C-13-0575 MMC

ORDER GRANTING DEFENDANT'S MOTION TO DISMISS COUNTER-DEFENDANT'S SECOND AND THIRD COUNTERCLAIMS AND TO STRIKE COUNTER-DEFENDANT'S AFFIRMATIVE DEFENSES

Before the Court is defendant/counterclaimant Kirby Morgan Dive System, Inc.'s ("Kirby Morgan") "Motion to Dismiss Counter-Defendant's Second and Third Counterclaims . . . and Motion to Strike Counter-Defendant's Affirmative Defenses," filed August 16, 2013. Plaintiff/counter-defendant Surface Supplied, Inc. ("SSI") has filed opposition, to which Kirby Morgan has replied. Having read and considered the papers filed in support of and in opposition to the motion, the Court rules as follows.[1]

BACKGROUND

Kirby Morgan is a California corporation that manufactures and markets "surface-supplied commercial diving helmets and related diving equipment." (See SSI First Amended Answer and Affirmative Defenses and First Amended Counterclaim

[1] By order filed September 17, 2013, the Court took the motion under submission.

("FAA/FACC"), Countercls. ¶ 5.) It holds a number of registered trademarks. (See Request for Judicial Notice in Support of Motion to Dismiss ("RJN") Exs. 11–15 (notices from United States Patent and Trademark Office regarding five trademarks).)[2] SSI, also a California corporation, is "a market entrant into the United States market for surface gas controllers and analyzers" and "a potential entrant into the United States market for commercial diving helmets[.]" (See id. ¶ 4.)

On January 22, 2013, Kirby Morgan dispatched to SSI a letter demanding that SSI immediately cease and desist from using three images, including SSI's logo, on the ground that the images infringe Kirby Morgan's trademarks. (See id. ¶ 12.) On February 8, 2013, SSI filed a complaint for declaratory relief, which it amended on March 1, 2013. In its amended complaint, SSI sought declarations that its use of the images do not infringe Kirby Morgan's trademarks and that said trademarks are unenforceable on the ground of trademark misuse. (See First Amended Compl. ("FAC"), Prayer ¶¶ 1–3.) In its answer to the FAC, filed July 12, 2013, Kirby Morgan responded by asserting, a series of counterclaims for, inter alia, trademark infringement. (See Ans. ¶¶ 27–32.)

SSI thereafter filed the pleading here at issue, in which it asserts the following twenty-one affirmative defenses to Kirby Morgan's counterclaims: (1) "Failure to State a Claim"; (2) Statute of Limitations"; (3) "Estoppel"; (4) "Unclean Hands"; (5) "Laches"; (6) Acquiescence"; (7) "Fraud"; (8) "Abandonment"; (9) "Source Misrepresentation"; (10) "Descriptive Fair Use"; (11) "Nominative Fair Use"; (12) "Freedom of Speech"; (13) "Monopolization and Attempt to Monopolize"; (14) "Violation of Antitrust Laws"; (15) "Functionality"; (16) "Genericness"; (17) "Descriptiveness"; (18) "No Damages"; (19) "No Commerce"; (20) "Exhaustion of Remedies"; and (21) "Reservation of Defenses." It also asserts three counterclaims on its own behalf: "Cancellation of Trademark Registration"; "Attempt to Monopolize"; and "Monopolization." The latter two counterclaims both allege that Kirby Morgan "engaged in . . . anticompetitive conduct" by "bringing a series of lawsuits

[2] Kirby Morgan's request for judicial notice is unopposed. (See Opp'n at 19–20.)

pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival." (FAA/FACC, Countercls. ¶¶ 37, 39, 45, 46.) By the instant motion, Kirby Morgan asks the Court to strike all twenty-one affirmative defenses, some without leave to amend, and to dismiss SSI's second and third counterclaims.

LEGAL STANDARD

Dismissal under Rule 12(b)(6) of the Federal Rules of Civil Procedure can be based on the lack of a cognizable legal theory or the absence of sufficient facts alleged under a cognizable legal theory. See Balistreri v. Pacifica Police Dep't, 901 F.2d 696, 699 (9th Cir. 1990). Rule 8(a)(2), however, "requires only 'a short and plain statement of the claim showing that the pleader is entitled to relief.'" See Bell Atl. Corp. v. Twombly, 550 U.S. 544, 555 (2007) (quoting Fed. R. Civ. P. 8(a)(2)). Consequently, "a complaint attacked by a Rule 12(b)(6) motion to dismiss does not need detailed factual allegations." See id. Nonetheless, "a plaintiff's obligation to provide the grounds of his entitlement to relief requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do." See id. (internal quotation, citation, and alteration omitted).

In analyzing a motion to dismiss, a district court must accept as true all material allegations in the complaint, and construe them in the light most favorable to the nonmoving party. See NL Indus., Inc. v. Kaplan, 792 F.2d 896, 898 (9th Cir. 1986). "To survive a motion to dismiss, a complaint must contain sufficient factual material, accepted as true, to 'state a claim to relief that is plausible on its face.'" Ashcroft v. Iqbal, 556 U.S. 662, 678 (2009) (quoting Twombly, 550 U.S. at 570). "Factual allegations must be enough to raise a right to relief above the speculative level[.]" Twombly, 550 U.S. at 555. Courts "are not bound to accept as true a legal conclusion couched as a factual allegation." See Iqbal, 556 U.S. at 678 (internal quotation and citation omitted).

Generally, a district court, in ruling on a Rule 12(b)(6) motion, may not consider any material beyond the complaint. See Hal Roach Studios, Inc. v. Richard Feiner & Co., 896 F.2d 1542, 1555 n. 19 (9th Cir. 1990). Documents whose contents are alleged in the complaint, and whose authenticity no party questions, but which are not physically attached

to the pleading, however, may be considered. See Branch v. Tunnell, 14 F.3d 449, 454 (9th Cir. 1994). In addition, a district court may consider any document "the authenticity of which is not contested, and upon which the plaintiff's complaint necessarily relies," regardless of whether the document is referenced in the complaint. See Parrino v. FHP, Inc., 146 F.3d 699, 706 (9th Cir. 1998). Finally, the Court may consider matters that are subject to judicial notice. See Mack v. S. Bay Beer Distribs., Inc., 798 F.2d 1279, 1282 (9th Cir. 1986).

DISCUSSION

A. Affirmative Defenses

The Court first turns to SSI's affirmative defenses, which Kirby Morgan argues SSI has inadequately pleaded. As Kirby Morgan points out, the answer includes no factual allegations in support of any of the twenty-one "affirmative defenses," but, rather, consists entirely of legal conclusions. See Barnes v. AT&T Pension Benefit Plan-Nonbargained Program, 718 F. Supp. 2d 1167, 1170 (N.D. Cal. 2010) (holding "defense is insufficiently pled if it fails to give the plaintiff fair notice of the nature of the defense"); see also Ashcroft v. Iqbal, 556 U.S. 662, 678 (2009) (holding, in context of challenge to adequacy of complaint, "legal conclusions," to comply with Rule 8, "must be supported by factual allegations"). In its opposition, SSI "concede[s] that its affirmative defenses need to be amended to conform to the requirements of Iqbal-Twombly" (Opp'n at 23) and requests leave to amend. Kirby Morgan argues that SSI should be denied leave to amend its first, fifth, twelfth, thirteenth, seventeenth, eighteenth, and twenty-first affirmative defenses because amendment would be futile.

1. First, Eighteenth, and Twenty-First Affirmative Defenses

As Kirby Morgan correctly points out, several of SSI's affirmative defenses are not, in fact, affirmative in nature. "A defense which demonstrates that plaintiff has not met its burden of proof is not an affirmative defense." Zivkovic v. Southern California Edison Co., 302 F.3d 1080, 1088 (9th Cir. 2002); see Barnes, 718 F. Supp. 2d at 1173–74 (striking "affirmative defenses" that "simply provide[d] a basis to negate an element of [plaintiff's]

prima facie case for relief"; noting such "affirmative defenses" are "merely rebuttal against the evidence presented by the plaintiff").

SSI's first affirmative defense alleges Kirby Morgan's counterclaims "fail to state a claim upon which relief may be granted." (See FAA/FACC, Affirm. Defs. ¶ 1). "Failure to state a claim is not a proper affirmative defense, but, rather, asserts a defect in [the] prima facie case." Barnes, 718 F. Supp. 2d at 1174. Accordingly, SSI's first affirmative defense will be stricken without leave to amend.

SSI's eighteenth affirmative defense alleges Kirby Morgan "has suffered no damages and/or has failed to mitigate its damages, if any." (See FAA/FACC, Affirm. Defs. ¶ 18). "[A]n assertion that the plaintiff suffered no damages is not an affirmative defense, because it is essentially an allegation that the plaintiff cannot prove the elements of its claims." JPMorgan Chase Bank, N.A. v. Parkside Lending, LLC, 2013 U.S. Dist. LEXIS 16981 at *4 (N.D. Cal. Feb. 7, 2013). Accordingly, to the extent that SSI's eighteenth affirmative defense alleges that Kirby Morgan "suffered no damages," it will be stricken without leave to amend.[3]

In its twenty-first affirmative defense, SSI attempts to "reserve[] the right to assert . . . additional defenses in the event that further discovery, investigation or analysis indicate they are proper." (FAA/FACC, Affirm. Defs. ¶ 21.) "An attempt to reserve affirmative defenses for a future date is not a proper affirmative defense in itself. Instead, if at some later date defendants seek to add affirmative defenses, they must comply with Rule 15 of the Federal Rules of Civil Procedure." Solis v. Zenith Capital, LLC, 2009 WL 1324051 at *7 (N.D. Cal. May 8, 2009) (internal citation omitted). Accordingly, SSI's twenty-first affirmative defense will be stricken without leave to amend.

2. Fifth Affirmative Defense

[3] While Kirby Morgan argues that the entirety of the eighteenth affirmative defense should be stricken, it only argues that "the 'no damages' portion" of such defense "should be stricken without leave to amend." (See Mot. at 23–24.)

Kirby Morgan argues that SSI's "laches" affirmative defense should be stricken "as a matter of law" because the statutes of limitations for Kirby Morgan's claims have not run. (See Mot. at 18.) Although "[l]aches, an equitable defense, is distinct from the statute of limitations, a creature of law," Jarrow Formulas, Inc. v. Nutrition Now, Inc., 304 F.3d 829, 835 (9th Cir. 2002), "[i]f a [Lanham Act] claim is filed within the analogous state limitations period,[4] the strong presumption is that laches is inapplicable," id. at 837. Here, however, SSI has pleaded no facts to show the nature of its laches defense and, consequently, the Court is unable to determine whether the presumption, in this instance, could or could not be rebutted. Accordingly, SSI's fifth affirmative defense will be stricken with leave to amend.

3. Twelfth Affirmative Defense

Kirby Morgan argues that SSI's "Freedom of Speech" affirmative defense, which is asserted in addition to SSI's two "fair use" defenses, should be stricken without leave to amend because speech that tends to mislead and confuse consumers is not protected speech under the First Amendment. (See Mot. at 21.) "Limited to [their] core purpose–avoiding confusion in the marketplace–a trademark owner's property rights play well with the First Amendment." Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 900 (9th Cir. 2002). Nevertheless, "[t]rademark rights do not entitle the owner to quash an unauthorized use of the mark by another who is communicating ideas or expressing points of view." Id. In other words, "the trademark owner does not have the right to control public discourse whenever the public imbues his mark with a meaning beyond its source-identifying function." . In this case, although SSI has pleaded no facts suggesting its usage of Kirby Morgan's marks has anything more than a "source-identifying function," there likewise are no facts suggesting it is unable to do so. Accordingly, SSI's twelfth affirmative defense will be stricken with leave to amend.

[4] Because the Lanham Act contains no statute of limitations, the Ninth Circuit "'borrow[s]' the limitations period from the most closely analogous action under state law." Jarrow Formulas, 304 F.3d at 836.

4. Thirteenth Affirmative Defense

Kirby Morgan argues that SSI's "Monopolization and Attempt to Monopolize" affirmative defense is duplicative of its fourth affirmative defense, "Unclean Hands." (See Mot. at 21.) As Kirby Morgan itself notes, however, SSI, in support of the latter, "fails to identify any allegedly 'unclean' conduct by Kirby Morgan." (Id. at 18.) Absent such allegations, the Court cannot determine if SSI's thirteenth defense is, in fact, duplicative of its fourth. Accordingly, SSI's thirteenth affirmative defense will be stricken with leave to amend.

5. Seventeenth Affirmative Defense

Kirby Morgan argues that "Descriptiveness" is not available to SSI as an affirmative defense because Kirby Morgan's marks have achieved incontestable status. (See RJN Exs. 11–15 (Notices of Acceptance and Acknowledgment, by United States Patent and Trademark Office, confirming that the "combined declaration of use and incontestability filed in connection with the registration . . . meets the requirements of Sections 8 and 15 of the Trademark Act, 15 U.S.C. § 1058 and 1065").)

Under the Lanham Act:

> To the extent that the right to use the registered mark has become incontestable under section 1065 . . . , the registration shall be conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's right to use the registered mark in commerce.

15 U.S.C. § 1115(b). Although § 1115(b) lists nine "defenses or defects" to which such registration "shall be subject," see 15 U.S.C. § 1115(b)(1)–(9), the list does not include "descriptiveness," see id., and the Supreme Court has held that an infringement action brought by the holder of an incontestable mark "may not be defended on the grounds that the mark is merely descriptive," Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 205 (1985). Accordingly, SSI's seventeenth affirmative defense will be stricken without leave to amend.

6. Remaining Defenses

Ordinarily, leave to amend a pleading should be afforded unless amendment would be futile. See Steckman v. Hart Brewing, Inc., 143 F. 3d 1293, 1298 (9th Cir. 1998) (citing "general rule" that leave to amend following dismissal of pleading should be afforded unless "any amendment would be an exercise in futility"). Here, Kirby Morgan has made no argument that amendment of SSI's remaining affirmative defenses would be futile, nor, on the record before it, can the Court so find. Accordingly, the Court will afford SSI an opportunity to amend those defenses to allege sufficient facts in support thereof.

B. Counterclaims

The Court next addresses the second and third counterclaims, "Attempt to Monopolize" and "Monopolization," both brought under § 2 of the Sherman Act, 15 U.S.C. § 2, and § 4 of the Clayton Act, 15 U.S.C. § 15.[5] Kirby Morgan argues each is insufficiently pleaded and, further, is barred by the Noerr-Pennington doctrine. Kirby Morgan seeks an order of dismissal without leave to amend, both on substantive, specifically futility, and procedural grounds.[6]

1. Attempt to Monopolize

"[T]o state a claim for attempted monopolization, the plaintiff must allege facts that, if true, will prove: (1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize and (3) a dangerous probability of achieving monopoly power." Coalition for ICANN Transparency, Inc. v. VeriSign, Inc., 611 F.3d 495, 506 (9th Cir. 2010) (internal quotation omitted). Kirby Morgan argues that SSI has inadequately pleaded each element of its cause of action for attempted monopolization. The Court agrees.

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[5] Section 2 of the Sherman Act provides that "[e]very person who shall monopolize any part of the trade or commerce . . . shall be deemed guilty of a felony." 15 U.S.C. § 2. Section § 4 of the Clayton Act provides a private right of action and treble damages to "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws," including violation of the Sherman Act. 15 U.S.C. § 15(a).

[6] The Court finds Kirby Morgan's citation to procedural deficiencies unpersuasive and addresses the question of futility below.

As to the first element, predatory or anticompetitive conduct, SSI alleges that "Kirby Morgan has engaged in a pattern or practice of bringing a series of lawsuits pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival" and that "Kirby Morgan has been successful in intimidating small rivals and discouraging them from entering" the relevant markets. (FAA/FACC, Countercls. ¶ 37.) As discussed below, "sham litigation may constitute anticompetitive conduct." See Girafa.com, Inc. v. Alexa Internet, Inc., 2008 WL 4500858 at *2 (N.D. Cal. Oct. 6, 2008) (borrowing sham litigation test from Noerr-Pennington doctrine to determine whether litigation constituted anticompetitive behavior under § 2 of Sherman Act).

"Sham litigation is litigation that is 'objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits,' and that is subjectively intended to harm a competitor's business." see id. (quoting Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 60–61 (1993)). If "the alleged anticompetitive behavior consists of bringing a single sham lawsuit (or a small number of such suits), the antitrust plaintiff must demonstrate that the lawsuit was (1) objectively baseless, and (2) a concealed attempt to interfere with the plaintiff's business relationships." Kottle v. Nw. Kidney Centers, 146 F.3d 1056, 1060 (9th Cir. 1998) (citing Prof'l Real Estate Investors, 508 U.S. at 60-61). If, on the other hand, "the alleged anticompetitive behavior is the filing of a series of lawsuits," the question becomes "not whether any one of them has merit–some may turn out to, just as a matter of chance–but whether they are brought pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival." See Kottle, 146 F.3d at 1060 (internal quotation and citation omitted).

Here, SSI has alleged that "Kirby Morgan has engaged in a pattern and practice of bringing a series of lawsuits pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival." (See FAA/FACC,

Countercls. ¶ 37, 45.) SSI identifies, however, only two lawsuits[7] (see FAA/FACC, Countercls. ¶¶ 14–15), and its allegation that other, "small rivals" have been "intimidat[ed]" and "discourag[ed]" from entering the market, if meant to substantiate its pleading of such a "series," is no more than conclusory (see FAA/FACC, Countercls. ¶¶ 37, 45). If SSI intends to allege a "series of lawsuits," it has failed to plead sufficient factual allegations showing the existence of such a series. If, on the other hand, SSI intends to rest its claim of anticompetitive behavior on the two lawsuits it expressly references, it has failed to plead any facts showing those lawsuits to be "objectively baseless." See Kottle, 146 F.3d at 1060. In sum, SSI fails to adequately plead the first element of a claim for attempt to monopolize.

With respect to the second element, specific intent to monopolize, SSI alleges that "Kirby Morgan acts with the specific intent to destroy competition" and "to accomplish monopolization of the Surface Gas Controllers and Analyzers Relevant Market." (FAA/FACC, Countercls. ¶¶ 38-39.) Although specific intent may be inferred from anticompetitive conduct, see Hallmark Indus. v. Reynolds Metals Co., 489 F.2d 8, 12 (9th Cir. 1973) (noting that "[o]rdinarily specific intent is difficult to prove and will be inferred from such anticompetitive conduct"), where, as here, the anticompetitive conduct has not been adequately alleged, an inference of specific intent is not warranted, see Rutman Wine Co. v. E. & J. Gallo Winery, 829 F.2d 729, 735 (9th Cir.1987) (finding allegations of specific intent "conclusory in the absence of anticompetitive conduct"). Consequently SSI fails to adequately plead the second element of its claim.

In pleading the third element, dangerous probability of achieving monopoly power, SSI alleges only that Kirby Morgan has "market power in the highly concentrated United

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[7] Prior to filing its counterclaims in the above-titled action, Kirby Morgan filed in the Central District of California a complaint alleging four of the same claims. (See FAA/FACC, Countercls. ¶ 14.) On July 17, 2013, after this Court denied Kirby Morgan's motion to dismiss the instant action in light of the Central District action, or, in the alternative, to transfer the present action to the Central District, Kirby Morgan voluntarily dismissed the Central District action. (See id.) SSI alleges, in conclusory fashion, that the above-titled action and the Central District action were filed "without regard to the merits and for the purpose of injuring a market rival." (See ¶¶ 14–15.)

States market for surface gas controllers and analyzers" and that "there was a dangerous probability that [Kirby Morgan] might succeed in monopolizing" that market. (FAA/FACC, Countercls. ¶¶ 36, 40.) Such allegations are, in essence, nothing more than "labels and conclusions," and a "formulaic recitation of the elements of a cause of action," and, as such, "will not do." See Twombly, 550 U.S. at 555; Rick-Mik Enterprises, 532 F.3d 963, 972 (9th Cir. 2008) (finding, where gasoline franchises constituted relevant product market, allegation that defendant "rank[ed] number one in the industry in branded gasoline stations" insufficient to allege market power, absent further factual allegations, such as "percentage of [defendant's] gasoline franchises . . . as compared to other franchises" in same market, "percentage of gasoline retail sales . . . made through non-franchise outlets," and "relative difficulty of a franchisee to switch franchise brands"); see also Korea Kumho Petrochemical v. Flexsys Am. LP, 2008 WL 686834 at *9 (N.D. Cal. Mar. 11, 2008) (finding "dangerous probability" inadequately pleaded where plaintiff failed to "assert . . . facts in support of its assertions of market power that suggest[ed] those assertions [were] plausible") (emphasis in original). SSI thus fails to adequately plead the third element.

Accordingly, SSI's counterclaim for attempted monopolization will be dismissed with leave to amend to plead sufficient "factual allegations . . . to raise a right to relief above the speculative level." Twombly, 550 U.S. at 555.

2. Monopolization

"[A] claim for monopolization of trade has two elements: the possession of monopoly power in the relevant market and . . . the acquisition or perpetuation of this power by illegitimate predatory practices." Coalition for ICANN Transparency, 611 F.3d at 506 (internal quotation and citations omitted; alteration in original). Kirby Morgan argues that SSI has inadequately pleaded each element of its second cause of action. The Court again agrees.

SSI alleges that "Kirby Morgan has monopoly power in the United States market for surface supplied commercial diving helmets"; has "engaged in a pattern and practice of bringing a series of lawsuits pursuant to a policy of starting legal proceedings without

regard to the merits and for the purpose of injuring a market rival"; has "been successful in intimidating small rivals and discouraging them from entering" the relevant market"; and has "acted with the specific intent to acquire and maintain its monopoly power in the Commercial Diving Helmet Relevant Market . . . and otherwise monopolize this relevant market." (FAA/FACC, Countercls. ¶¶ 44-47.)

As discussed above, SSI's allegations as to predatory conduct are insufficient to "'state a claim to relief that is plausible on its face.'" See Iqbal, 556 U.S. at 678 (quoting Twombly, 550 U.S. at 570). Moreover, its bare assertion that "Kirby Morgan has monopoly power" in the relevant market, absent supporting factual allegations, is, in essence, a legal conclusion, which the Court "is not bound to accept as true." See Iqbal, 556 U.S. at 678; see also, e.g. Cost Mgmt. Servs, Inc, v. Washington Natural Gas. Co., 99 F.3d 937, 950–51 (9th Cir. 1996) (noting, whereas "market share standing alone does not automatically equate to monopoly power," complaint was sufficient to withstand motion to dismiss where plaintiff alleged defendant had ninety percent share of relevant market, was able to charge off-tariff prices, and, by such pricing, had excluded competition from market).

Accordingly, SSI's counterclaim for monopolization will be dismissed with leave to amend to plead sufficient "factual allegations . . . to raise a right to relief above the speculative level." Twombly, 550 U.S. at 555.

3. Causal Antitrust Injury

"Only those who meet the requirements for antitrust standing may pursue a claim under the Clayton Act; and to acquire antitrust standing, a plaintiff must adequately allege and eventually prove antitrust injury." Glen Holly Entm't, Inc. v. Tektronix Inc., 343 F.3d 1000, 1007, opinion amended on denial of reh'g, 352 F.3d 367 (9th Cir. 2003) (internal quotations omitted) (emphasis in original). Antitrust injury consists of four elements: "(1) unlawful conduct, (2) causing an injury to the plaintiff, (3) that flows from that which makes the conduct unlawful, and (4) that is of the type the antitrust laws were intended to prevent." Id. at 1008. Additionally, the Ninth Circuit "impose[s] a fifth requirement, that the injured

party be a participant in the same market as the alleged malefactors." Id. at 1008 (internal quotation omitted). Kirby Morgan argues that SSI has not inadequately pleaded the elements of antitrust injury. The Court agrees.

As to the first element, SSI, as discussed above, has failed to plead conduct unlawful under the antitrust statutes. Consequently, SSI's allegations as to the second through fourth elements likewise fail, as each of those elements is dependant upon the existence of the first.

As to the Ninth Circuit's fifth requirement, Kirby Morgan argues SSI has "admitted that it is not in the same markets as Kirby Morgan," and, consequently, that the two contested counterclaims are subject to dismissal without leave to amend on the basis of futility.[8] (See Reply at 11–12.) The Court agrees that SSI has not adequately pleaded the fifth requirement, but disagrees that leave to amend should be denied on grounds of futility. Although a party alleging antitrust injury ordinarily must be a consumer or competitor in the same market, see Glen Holly Entm't, 343 F.3d at 1008, the Ninth Circuit has held that "a potential new entrant into the market [who] allegedly has been foreclosed from entering the market because of [defendants'] anticompetitive [conduct]" has standing to pursue an antitrust claim. Solinger v. A&M Records, Inc., 586 F.2d 1304, 1311 (9th Cir. 1978). Here, SSI has alleged it is a "market entrant into the United States market for surface gas controllers and analyzers" and a "potential entrant into the United States market for commercial diving helmets." (FAA/FACC, Countercls. ¶ 4.) Nevertheless, without further factual elaboration, such assertions are no more than legal conclusions. See Iqbal, 556

[8] In support thereof, Kirby Morgan has filed with its reply brief selected pages from a deposition given by SSI principal Jason Van der Schyff, in which Van der Schyff testified there are "no overlapping products" with respect to what SSI and Kirby Morgan sell. (See Sandelands Decl. Ex. 1 at 28:9–12.) SSI has filed an objection thereto on the ground the testimony is taken out of context, and offers additional excerpts wherein Van der Schyff, in support of his description of SSI as a market entrant, discusses SSI's prototype equipment and attendance at trade shows. (See Alioto Decl. Ex. A at 158:23–24, 162:12–17.) Citing Civil Local Rule 7-3(d), Kirby Morgan moves to strike the objection and accompanying evidence as untimely. Although Kirby Morgan is correct that SSI's objection was filed two days late, the Court finds it preferable to consider the proffered testimony in context and, accordingly, the motion to strike is hereby DENIED.

U.S. at 678 (holding courts are "not bound to accept as true a legal conclusion couched as a factual allegation") (internal quotation and citation omitted). Moreover, SSI has not at any point alleged that it has been foreclosed from entering the market.

Accordingly, as SSI has failed to plead the elements of causal antitrust injury, its counterclaims for attempted monopolization and monopolization will be dismissed for such additional reason, with leave to amend to cure the described deficiencies.

4. Noerr-Pennington Bar

Lastly, Kirby Morgan argues that SSI's second and third counterclaims should be dismissed without leave to amend because they are barred by the Noerr-Pennington doctrine. The Noerr-Pennington doctrine provides immunity from antitrust liability to those who "use the channels and procedures of state and federal agencies and courts to advocate their causes and points of view respecting resolution of their business and economic interests vis-a-vis their competitors." California Motor Transp. Co. v. Trucking Unlimited, 404 U.S. 508, 511 (1972). No such immunity is afforded, however, where such use is "a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor." Id. at 511.

To adequately plead that an antitrust defendant has engaged in "sham" litigation, and thus avoid the Noerr-Pennington bar, an antitrust plaintiff, as discussed above, must make one of two factual showings. In particular, where the alleged anticompetitive behavior consists of "bringing a single sham lawsuit (or a small number of such suits)," the antitrust plaintiff must demonstrate that the lawsuit was "objectively baseless, and . . . a concealed attempt to interfere with the plaintiff's business relationships," Kottle, 146 F.3d at 1060; where the alleged behavior is the "filing of a series of lawsuits," the question is "whether they are brought pursuant to a policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival," id.

Here, SSI appears to rely on the second test, in that it alleges in both its second and third counterclaims that "Kirby Morgan has engaged in a pattern and practice of bringing a series of lawsuits pursuant to a policy of starting legal proceedings without regard to the

merits and for the purpose of injuring a market rival." (FAA/FACC, Countercls. ¶¶ 37, 45.) In support thereof, however, SSI, as noted, identifies only two such lawsuits: the present action and Kirby Morgan's earlier action in the Central District. (See id. ¶¶ 14–15.) Consequently, to avoid the Noerr-Pennington bar, SSI must either plead facts that plausibly show those two lawsuits to be both "objectively baseless" and "a concealed attempt to interfere with [SSI's] business relationships," or identify more than "a small number of . . . suits" and allege such additional facts as required to meet the second test. See Kottle, 146 F.3d at 1060 (9th Cir. 1998).

Accordingly, SSI's second and third counterclaims will be dismissed for such additional reason, again with leave to amend to cure the additional deficiency.

CONCLUSION

For the reasons stated above, Kirby Morgan's motion is hereby GRANTED, as follows:

1. SSI's first, twelfth, seventeenth, and twenty-first affirmative defenses are STRICKEN without leave to amend.

2. To the extent SSI's eighteenth affirmative defense alleges Kirby Morgan suffered no damages, it is STRICKEN without leave to amend.

3. SSI's remaining affirmative defenses are STRICKEN with leave to amend to satisfy the requirements of Rule 8.

4. SSI's second and third counterclaims are hereby DISMISSED with leave to amend to cure the above-noted deficiencies.

5. SSI's amended answer and counterclaims, if any, shall be filed no later than October 24, 2013.

IT IS SO ORDERED.

Dated: October 3, 2013

MAXINE M. CHESNEY
United States District Judge